

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 PRS-01 PA-02 /106 W  
----- 076778

R 011726Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1878

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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C O R R E C T E D C O P Y (ADD TEXT AFTER PARA 3)

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 31)

REF: BONN 12024

1. THE BUNDESBANK HAS REPORTEDLY REACHED AN INFORMAL  
AGREEMENT WITH THE GERMAN BANKING COMMUNITY WHEREBY THE  
LATTER THROUGH AUGUST WILL REFRAIN FROM PROVIDING CREDIT  
TO NON-RESIDENTS WHICH HAS BEEN FINANCED THROUGH THE  
SALE OF NOTES (SCHULDVERSCHREIBUNGEN) ON THE GERMAN BOND  
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MARKET. SUCH AN AGREEMENT WOULD PRIMARILY AFFECT THE

GIROZENTRALEN (REGIONAL INSTITUTIONS OF THE SAVINGS BANKS) AND THE MORTGAGE BANKS SINCE IT IS THESE GROUPS WHICH HEAVILY RELY ON THE BOND MARKET FOR THEIR FUNDS. ALONG WITH THE TEMPORARY HALT IN ISSUING FOREIGN DM BONDS (SEE REFTTEL) THIS ACTION IS DESIGNED TO REDUCE THE PRESSURE ON THE GERMAN BOND MARKET.

2. IN A RECENT PARLIAMENTARY QUESTION HOUR STATE SECRETARY POEHL OF THE FINANCE MINISTRY STATED THAT FEDERAL GOVERNMENT AND BUNDESBANK WILL MAINTAIN THEIR 8 PERCENT GOAL FOR THE GROWTH OF CENTRAL BANK MONEY IN 1975. POEHL SAID HOWEVER THAT DURING THE FIRST HALF OF 1975 THE EXPANSION OF CENTRAL BANK MONEY HAD NOT REACHED THE DESIRED 8 PERCENT LEVEL. CALCULATED ON AN ANNUAL BASIS, CENTRAL BANK MONEY HAS EXPANDED ONLY 4 PERCENT IN THE LAST THREE MONTHS AND BY 7 PERCENT IN THE LAST SIX AND TWELVE MONTH PERIOD.

3. MONEY SUPPLY: IN JUNE THE NARROWLY DEFINED MONEY SUPPLY (M1) INCREASED BY DM 4.7 BILLION WHILE THE WIDELY DEFINED MONEY SUPPLY (M2) DECLINED BY DM 1.4 BILLION. ON A SEASONALLY ADJUSTED BASIS M1 FELL BY DM 0.1 BILLION AND M2 BY DM 2.3 BILLION. AT THE END OF JUNE 1975 M1 WAS 14.1 PERCENT ABOVE JUNE 1974 WHILE M2 WAS 2.8 PERCENT LOWER. THE EXTENSION OF BANK CREDITS TO THE PRIVATE ECONOMY (WHICH INCREASED IN MAY BY DM 3.6 BILLION) ROSE IN JUNE BY DM 6.0 BILLION; LONG-TERM CREDITS BY DM 2.1 BILLION AND SHORT-TERM CREDITS BY DM 3.9 BILLION. PUBLIC AUTHORITIES CONTINUED TO BORROW SUBSTANTIAL AMOUNTS FROM BANKS (DM 2.6 BILLION IN JUNE AS COMPARED WITH DM 3.6 BILLION IN MAY). MONEY INVESTED IN SAVINGS ACCOUNTS AND IN SAVINGS BONDS WHICH HAD REACHED RECORD LEVELS IN RECENT MONTHS DECLINED TO DM 3.6 BILLION IN JUNE. DURING JUNE THE INDIVIDUAL DETERMINANTS AND COMPONENTS OF THE MONEY SUPPLY DEVELOPED AS FOLLOWS:

	1975	1974
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	JUNE	MAY JUNE

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BANK LENDING TO DOMESTIC NON-BANKS    6.8 7.7 9.6

NET EXTERNAL ASSETS OF BANKS (IN-  
CL. BUNDESBANK)                    1.7 0.1 0.3

SAVINGS DEPOSITS AND SAVINGS BONDS    3.6 6.2 1.2

TIME DEPOSITS (1) AND OUTSTANDING

BANK BONDS (2) 0.5 1.6 1.1

OFFICIAL ASSETS HELD AT CENTRAL BANK 2.0 -0.8 2.5

OTHER -3.8 -1.2 17.5

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MONEY SUPPLY (M2) -1.4 -0.4 0-2.4

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SIL-01 PRS-01 PA-02 /106 W

----- 040953

R 011726Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1879

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

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AMCONSUL FRANKFURT

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OF WHICH: CURRENCY IN CIRCULATION AND

SIGHT DEPOSITS (M1) 4.7 4.2 4.0

TIME DEPOSITS WITH MATURITIES

UP TO 4 YEARS -6.1 -4.6 -6.4

(1) WITH MATURITIES OF 4 YEARS AND MORE.

(2) EXCLUDING BONDS HELD BY BANKS.

4. FOREIGN EXCHANGE MARKET: THE DOLLAR CONTINUED TO STRENGTHEN ON GERMAN FOREIGN EXCHANGE MARKETS. THE SPOT DOLLAR RATE REACHED ON JULY 31 WAS THE HIGHEST SINCE OCTOBER 31, 1974. DURING THE REPORTING WEEK SPOT AND UNCLASSIFIED

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FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS  
(DISCOUNTS IN PCT. P.A.)  
SPOT DOLLARS ONE-MONTH THREE-MONTH

JULY 24	DM 2.5272	2.4	3.2
25	2.5260	2.6	3.0
28	2.5308	2.4	2.8
29	2.5572	2.4	3.0
30	2.5588	2.1	3.1
31	2.5765	2.6	3.1

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY. HOWEVER, ALL OTHER FLOAT CURRENCIES REMAINED BELOW THEIR UPPER DEUTSCHEMARK INTERVENTION POINTS.

5. MONEY MARKET: THE GERMAN MONEY MARKET EASED SUBSTANTIALLY AT THE END OF JULY WITH THE CALL MONEY RATE DECLINING TO ALMOST ZERO. APPARENTLY GERMAN BANKS HAD FULFILLED JULY RESERVE REQUIREMENTS BEFORE THE END OF THE MONTH. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

JULY 24	4.3-4.6	4.2-4.6	4.4-4.8
25	4.0-4.4	4.2-4.5	4.4-4.7
28	4.1-4.4	4.2-4.5	4.4-4.7
29	4.5-4.9	4.2-4.5	4.4-4.7
30	4	4.2-4.5	4.3-4.6
31	0-1.0	4.0-4.3	4.2-4.5

6. BUNDESBANK FOREIGN POSITION: IN THE THIRD WEEK OF JULY (JULY 16-23) THE BUNDESBANK'S NET FOREIGN POSITION

DECLINED BY DM 0.9 BILLION TO DM 80.8 BILLION.

HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 689  
MILLION AND GERMANY'S IMF GOLD TRANCHE POSITION BY  
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DM 31 MILLION. GROSS LIABILITIES INCREASED BY ABOUT  
DM 180 MILLION.

7. BANK LIQUIDITY: IN THE THIRD WEEK OF JULY BANK  
LIQUIDITY DECLINED BY DM 0.6 BILLION. THE PRINCIPAL  
FACTOR REDUCING LIQUIDITY WAS A DM 4.6 BILLION INCREASE  
IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK REFLECTING  
MID-MONTH TAX PAYMENTS. THE ABOVE-MENTIONED DECLINE IN  
THE BUNDESBANK'S FOREIGN POSITION AND OTHER FACTORS  
(DM 0.6 BILLION, NET) CONTRIBUTED TO THE REDUCTION.  
LIQUIDITY WAS INCREASED BY THE USUAL DECLINE IN CURRENCY  
IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 1.8  
BILLION) AND A DM 3.7 BILLION REDUCTION IN THE BANKS'  
HOLDINGS OF RESERVES AT THE BUNDESBANK. THE BANKS  
FINANCED THE LIQUIDITY LOSS BY INCREASING REDISCOUNT  
BORROWINGS BY DM 0.4 BILLION AND LOMBARD BORROWINGS BY  
DM 0.1 BILLION.

8. BOND MARKET: ON THE BOND MARKET SELLING PRESSURE  
DECLINED SUBSTANTIALLY. DURING THE REPORTING WEEK  
THE BUNDESBANK PURCHASED OUTSTANDING PUBLIC BONDS IN AN  
AMOUNT OF ABOUT DM 200 MILLION COMPARED WITH PURCHASES  
OF DM 1.1 BILLION BETWEEN JULY 22 AND 24. DURING THE  
REPORTING WEEK FAZ AVERAGE YIELDS TO MATURITY OF

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SIL-01 PRS-01 PA-02 /106 W

----- 040929

R 011726Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1880

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

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OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

JULY 24	8.82	8.93	8.27
25	8.88	8.97	8.33
28	8.85	8.96	8.37
29	8.88	8.94	8.38
30	8.89	8.93	8.36
31	8.89	8.90	8.34

THE LAST TWO FOREIGN DM BONDS TO BE OFFERED BEFORE THE  
HALT IN SUCH ISSUE (SEE PARA 1 ABOVE) ARE LOANS OF DM  
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100 MILLION EACH OF THE ICI INTERNATIONAL FINANCE LTD.,  
BERMUDA, AND THE SOUTH AFRICAN ELECTRICITY SUPPLY  
COMMISSION (ESCOM). THE CONDITIONS OF THE ICI LOAN  
ARE: COUPON 8-1/2 PERCENT, ISSUE PRICE 99-1/2,  
MATURITY 7 YEARS NON-CALLABLE, YIELD TO MATURITY 8.60  
PERCENT; AND THAT OF THE ESCOM LOAN: COUPON 9-1/4  
PERCENT, ISSUE PRICE 99-1/2, MATURITY 5 YEARS NON-  
CALLABLE, YIELD TO MATURITY 9.38 PERCENT.  
HILLENBRAND

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, CENTRAL BANK, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 01 AUG 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BONN12497  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750269-0177  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750887/aaaaczcy.tel  
**Line Count:** 331  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 BONN 12024  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** buchant0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 10 FEB 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <10 FEB 2003 by ReddocGW>; APPROVED <10 MAR 2004 by buchant0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 31)  
**TAGS:** EFIN, GE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006